

The budget did nothing to tackle barriers that prevent higher productivity

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George Osborne used his budget speech to portray the coalition government's stewardship of the economy in positive light, referencing falling unemployment and expanding GDP. But the truth is that the policies of the present coalition government have hindered recovery in the economy, argues [David Spencer](#).



George Osborne, predictably, used his budget speech to hail the good news regarding the labour market in the UK. Employment, he told us, is at a record level. More Britons are in work than ever before. Unemployment is also down. Even real wages are beginning to recover, after several years of decline. George Osborne wants us to feel good about the recovery and he wants us to associate this recovery with his own stewardship of the economy.

Yet, closer scrutiny of the employment figures reveals a less optimistic picture of higher (no doubt enforced) levels of self-employment, lagging productivity growth, and despite recent signs of recovery, below-crisis standards of living. Employment has expanded but most of the jobs created are in low paid and low productivity sectors. So-called [zero-hours contracts](#) have also risen. The securing of higher employment, in short, has imposed real costs on many. And with productivity set to remain low, the prospects for a rise in living standards look bleak indeed.

The truth is that the policies of the present coalition government have hindered recovery in the economy. The recovery was initially delayed by [extreme austerity](#). Paradoxically, by not sticking to his targets for deficit reduction, George Osborne has managed to achieve a delayed recovery in the economy. But this recovery has brought little cheer for hard-pressed workers who have faced having to dip into their savings or take on more debt to maintain their consumption levels. The coalition government has relied on the hardy consumer to sustain the recovery yet they have offered only austerity and hardship in return.

In the budget, the chancellor signalled he would trim his extreme cuts agenda – although this is purely a political strategy rather than any recognition that government spending can be a force for good and indeed a necessity in the context of anaemic demand in other parts of the economy. The medium term target of an overall budget surplus remains unrealistic given the deep-seated imbalances in the UK economy. Indeed it could prove a disaster if economic growth falters quite apart from the negative impacts on the scope and quality of public services.

Policies that could have been adopted like a rise in the minimum wage to the level of the living wage have not been enacted. Yet, higher real wages would have helped to secure recovery both by raising aggregate demand and by inducing higher productivity.

The government can borrow at low rates of interest and could and should take up the opportunities available to undertake long-term investments, not least in new social housing, to meet acute unmet needs. Instead the Chancellor chose again to underpin high house prices with yet another subsidy through the Help to Buy ISA – the latter will do nothing to address the acute lack of housing supply and will only serve to stoke up the housing market.

Public investments could and should be used to address barriers (in skills and in infrastructure) that prevent higher productivity. Today's budget did nothing to tackle these barriers, and to this extent, it represented a huge missed opportunity.

We may be entering Spring, but the labour market and wider economy remains in Winter.

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